

**RISK MANAGEMENT-BASED INTERNAL AUDIT FOR AUDITOR
TO IMPROVE THE PERFORMANCE OF INTERNAL AUDIT UNIT OF
PT TIMAH (Persero) TBK**

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Abstract - PT. Timah (Persero) Tbk. is a holding company whose primary activity is related to tin mining operations and services marketing products of their business group. During company's time course and development, PT.Timah (Persero) Tbk. Internal Audit Unit/SPI, as the internal audit executor, always face demands of dynamic personnel professionalism and working capacity in all conditions. Related to challenges in the process of task implementations and internal audit function, interrelation between risk management and internal audit was obtained. Therefore, it is unavoidable for internal audit activity to use risk management process. From a comparative study of 3 (three) domestic as well as foreign companies is PT Petrokimia Gresik, PT Sucofindo and Turk Tellekom (Turki), strong link was found between risk management and internal audit and their roles in improving internal audit of those companies. Moreover, based on analysis results of PT.Timah (Persero) Tbk.'s role in carrying out its function and part, by using qualitatively-based research methodology, it was found that there were some weaknesses that could potentially reduce internal audit effectiveness and efficiency. Hence, a suitable approach of the application of risk management-based internal audit was proposed in form of a business solution for the internal audit unit of PT. Timah (Persero) Tbk. Benefits of the application was provided with reference to those 3 (three) domestic and foreign companies that have applied the approach.

Keywords: Risk, Risk Management, Audit, Audit Internal,

1. Introduction

PT. Timah (Persero) Tbk. is a holding company whose primary activity is related to tin mining operations and services marketing products of their business group. Risk management is a business organization / company to manage the risks from the identification, measurement, mapping and risk control to limit the risk acceptable organization/company. Auditor is a person who has specific qualifications in the audited financial statements and activities of a company or organization. Rapid business development has led to the emergence of various problems and risks faced by company's operation where problems and risks must be addressed by each company in order to maintain his business. To be able to defend against these conditions, therefore, the company should be able to control the whole activities of its operations effectively, efficiently and economically.

Highly effective and efficient organization is one of keys to the company's performance in achieving its goals. One thing that plays an important role in improving performance of a company is an effective and efficient role of the internal audit unit (SPI)/Internal Audit in conducting company's performance assessment through the implementation of audit. Internal audit is an integral part of an company and,

therefore, has a very important role in the company's development. The primary role of internal audit is to supervise the process of company's operations in achieving short and long term goals of the company. Internal Audit is oriented to comprehensive advising that leads to the achieving company operations effectively, efficiently and economically and also as a partner in the implementation of the operational management of the company. The results of the implementation of Internal Audit can be used by management as one basis for decision making. Hence, based on the new paradigm to internal audit activity in supporting the sustainability of company's activities, is the use of existing risk management process within the company/organization as part of the audit process. The use of risk management process is very important because it would further encourage viewpoints and common language between the internal audit activity and other working units in company/organization against risks.

2. Literature Review

Some companies in Indonesia have implemented risk management to internal audit process. Two state-owned companies in Indonesia, PT. Petrokimia Gresik (Persero) and PT. Sucofindo (Persero), and one abroad, Turkey-based Türk Telekom, were selected to assess the application of risk management to internal audit. From this assessment, a suitable approach is proposed for the internal audit unit of PT. Timah (Persero) Tbk. In the development of the application of risk management in PT Petrokimia Gresik (Persero) [3], the scope discussed became more specific and adapted to the changes happening both externally and internally. Scope of risk management was divided into two scopes of Corporate Risk Scope and Operational Risk Scope. The concept of corporate risk and operational risk begins from the task and the responsibility of the Department of Risk Management as a risk management unit which must devise company's risk profile annually as working units guidelines in risk management.

Risk profile is also used as the basis for the preparation of the annual Audit Plan by Internal Audit in the implementation of auditing activities that are intended to ensure that risk control plans have been implemented and are effective. The result of the audit implementation is expected to be a benchmark of risk management effectiveness and would be reported to Management and the Audit Committee in the framework of the implementation of good corporate governance (GCG).

The next example is PT. Sucofindo (Persero) [4], which implement the application of company's risk management that are integrated between the internal control function in working unit, company's risk management function, and Internal Audit function in SPI. This triangle principle approach uses principles of good governance. The approach used by PT. Sucofindo (Persero) seem to use the approach of the *Three Lines of Defense* that is increasingly adopted by various organizations to risk management capabilities across the entire business processes and organization. Three layers of defense consists of internal control, risk management and internal Audit. Internal control is the 1st line of defense of corporate operational control that are within the authority of owners. Risk management is the 2nd of defense of control. Internal Audit is the last line or 3rd line of defense of company control, to ensure the effectiveness of the control system, whether the company can meet the basic compliance managed by SPI.

To obtain a thorough comparison of the application of risk management to the internal audit, it is also necessary to observe a company outside of Indonesia. Therefore, a company named Türk Telekom [5] was selected. Türk Telekom is a leading telecommunications venture in Turkey and have also become a public company. Similar approach as PT. Petrokimia Gresik (Persero) is used for the application of risk management-based internal audit. Türk Telekom's internal audit unit carries out its activity based on international standard certified by an independent organisation. The unit performs activities of assurance and consulting with the purpose to evaluate and develop risk management, control and governance

process of the company. The Internal Audit Department reports the activity results to the Audit Committee, which runs within the framework of the 'Internal Audit Department Working Principles' authorized by the Board. The Internal Audit Department is also responsible for company risk evaluations to identify risk areas, weakness in control mechanism, as well as ensure that all working plans have been implemented.

3. Research Methodology

Research methodology was devised to carry out improvement of the implementation of risk evaluation in audit planning with the goal to identify models as well as risk assessment methods that can be used in business activity of PT. Timah (Persero) Tbk. In this research, location was held at PT. Timah (Persero) Tbk. headquarters in Pangkalpinang, Bangka, at Risk Management working unit and Internal Audit Unit or SPI.

To obtain necessary data for supporting research activity, the following method is used:

- **Interview:** Interview was conducted to the head and staff at Risk Management working unit and also to Internal Audit Unit or SPI at PT Timah (Persero) Tbk.
- **Observation:** Observation implementation was conducted directly to research object in order to complete necessary data.

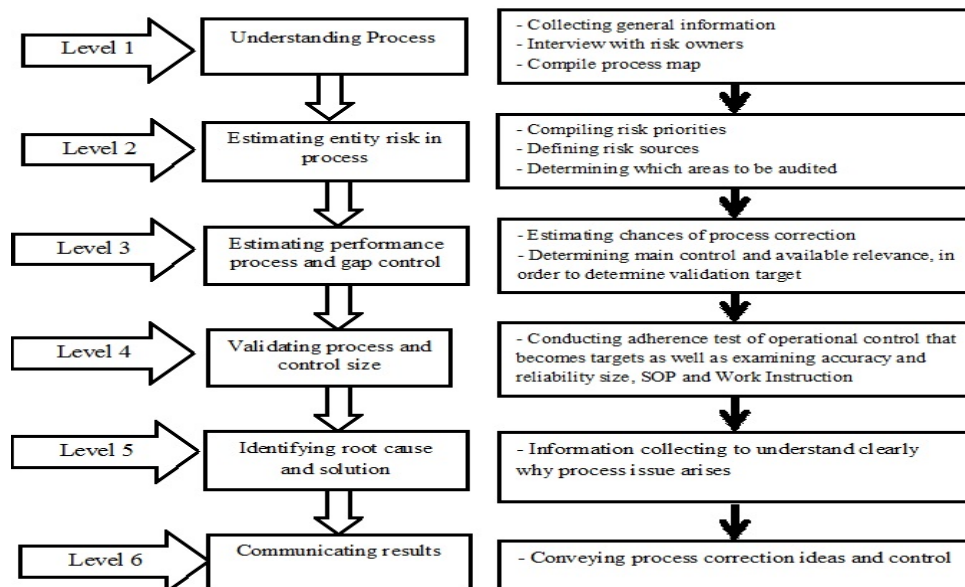


Diagram 1. Business solution for risk management-based internal audit application at PT. Timah (Persero) Tbk.

- **Documentation:** Document materials studied to obtain data and information in the present research include literature review and numerous articles from internet, magazines that are relevant to the research topic.

4. Analysis and Discussion

From comparative study of three domestic as well as foreign companies, it was found a strong link between risk management and internal audit, and their roles in improving internal audit performance of those companies. Based on evaluation of the existence of the company's internal audit, its role and function, it can be concluded that there were weaknesses that could potentially reduce the effectiveness and efficiency of the internal audit of PT. Timah (Persero) Tbk. Hence, a business solution [1], in Diagram 1, has been proposed for the application of risk management-based internal audit to improve the performance Internal Audit Unit of PT. Timah (Persero) Tbk. Benefits of the application derived from the business solution was described by referring to 3 (three) domestic as well as foreign companies that have applied it. These benefits can be seen in Diagram 2.

5. Conclusion and Suggestion

From analysis of the application of risk management-based internal audit as business solution, the conclusion can be drawn as follows:

1. From comparative study of three domestic as well as foreign companies, it was found a strong link between risk management and internal audit, and their roles in improving internal audit performance of those companies.
2. Based on evaluation of the existence of the PT.Timah (Persero) Tbk.'s internal audit, its role and function, it can be concluded that there were weaknesses that could potentially reduce the effectiveness and efficiency of the internal audit of PT.Timah (Persero) Tbk.
3. A business solution has been proposed for the application of risk management-based internal audit to improve the performance Internal Audit Unit of PT.Timah (Persero) Tbk. Benefits of the application was described by referring to 3 (three) domestic as well as foreign companies that have applied it.

Based on the conclusion, the application of risk management-based internal audit to Internal Audit Unit of PT.Timah (Persero) Tbk. was suggested. The implementation would be carried out by considering current conditions of the company, in particular the condition of human resource.

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Appendix

Proposed for the Application of Risk Management to in Internal Audit.

Application in 3 (three) companies	PT. Timah: Current	PT. Timah: Future (proposed)
1. PT. Petrokimia Gresik		
a. Two scope of risk management: - Corporate Risk Scope - Operational Risk Scope	At present, risk management implementation does not divide its scope, but to identify potential risks faced by company	Division of risk management scopes such as implemented at PT. Petrokimia (Persero) is suggested to be adopted
b. The corporate and operational scopes begins from Risk Management Department responsibility as risk management unit	Not responsibility of risk management, but responsibility of each working unit	Internal audit continually conducts evaluation based on defined risks
c. Risk Management Department compiles company's Risk Profile every year as a working unit guideline in risk management	PT. Timah Risk Management compiles risk profile, called Risk Prognosis	Compiling risks is carried out continually, which later used by internal audit in drafting yearly auditing plan
d. Risk Profile is used as the basis of compiling yearly audit planning	Audit plan compiling by SPI was carried out accordingly with risk evaluation conducted by internal audit based on previous audit and documents from each working unit, which reported to internal audit	Yearly audit planning compiling by internal audit should be based on the risk mapping conducted by Risk Management Commission and Investment
e. Audit results can be used as a reference of risk management effectiveness and reported to management and audit committee	At the moment the audit result of PT. Timah is reported to Board level, not to Audit Committee level yet	Audit result periodically reported to Audit Committee
2. PT. Sucofindo		
a. Company's risk management application that is integrated between risk management and internal control function in working units	There is no integration between risk management and internal audit	To carry out a collaboration between risk management and internal audit by the application of a system linking risk management and internal audit, to enable internal audit in drawing conclusions regarding significant risks in order to implement immediate audit process

b. Approach used is Three Lines of Defense to risks: <ul style="list-style-type: none"> • Internal control as the first line of defense • Risk management as the second line of defense • Audit Internal as third line of defense 	Three Lines of Defense concept or approach is presently not formally used by PT. Timah, but used separately	The Three Lines of Defense approach can be proposed to be applied at PT. Timah, due to integrated nature of the concept
c. The existence of integrated risk management culture in whole working unit in order to implement company operational process	Not conducted completely yet	Proposed to implement risk management culture to whole working units of company including subsidiary
3. Türk Telekom (Turkey public-listed company)		
a. Internal audit based on international standards certified by independent organization	At present PT. Timah has not used any international standard in internal audit as well as risk management	In future international standard such as ISO 31000:2009 [2] can be adopted for risk management and internal audit implementation
b. Internal audit activity conducted assurance and consultancy	Has been implemented but not maximally due to limited resource of experienced auditors, which means that human resources are not capable to handle the audit objective areas	Increasing the number of human resources, in particular the experienced auditors
c. Evaluate and develop risk management, control process and company governance	Has been implemented	Evaluation is continually conducted for correction
d. Internal Audit Department Working Principle that is authorized by the Board, which to report its activities to Audit Committee	Internal audit activity report has not been reported periodically to Audit Committee, only if Audit Committee carried out special investigation through internal audit	Internal audit periodically to report audit activity result to Audit Committee
e. Internal audit is responsible for company risk evaluation	Internal audit especially is not responsible to company risk, but risk is the responsibility of each owner	Internal audit carries out audit implementation accordingly to business process of risk management-based internal audit (six-level audit implementation)

f. Use information system to analysis data in audit system/implementation	Use data from SAP	SAP is used continually
g. Auditors already have CIA, SMMM, CISA, CFE certificates	No certifications	Propose for company auditors to obtain certification on order to improve human resource capability